

CORPORATE MISSION STATEMENT AND BUSINESS PERFORMANCE: THROUGH THE PRISM OF MACEDONIAN COMPANIES

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Abstract

This paper analyses the corporate mission statement as an essential step in the strategic planning process, based on its impact on companies' business performance, i.e. market share. We underline the significance of early employment of mission statement, because it is a technique through which the strategic intention of a company is defined and sustained. The study addresses two main research aspects: 1. the key components and terms by which a company can create a mission statement, and 2. the connection between detailed, highly comprehensive mission statement and market share. The methodology includes quantitative and qualitative research that explored the way in which 38% of the registered companies in the confectionery industry in Macedonia create their mission statements. Primary data was derived from questionnaires and semi-structured interviews and secondary data - from books, journals and academic articles. Data was analyzed with IBM Statistical Package for Social Sciences (SPSS) 19. Results suggest that highly comprehensive mission statement has significant correlation and directly influences companies' market share, i.e. performance. The analysis has also shown that a model of key components and terms of a mission statement can be used as a guide in the process of mission statement creation. The limitations of the paper arise from sample's size and the (one) chosen industry, but the findings are useful to entrepreneurs and managers, since they provide a more accurate perspective of the significance of mission statement and the way that it affects business.

Key words: Mission statement, business performance, market share, key components and terms.

1. Introduction

At the beginning of the business operation, top management must define the culture and strategic intent as key aspects in the operation of an enterprise. The aspirations of the company should have a strategic intent, expressed through statements about vision, mission and organizational goals. The mission of the company is often presented in the form of so-called mission statement, which projects a certain image of the underlying intent of the existence of the company. The mission is broad description of the intention of the company and the type of activities it plans to undertake (Campbell, 1997). In fact, the mission statement defines the business that the company is in, its goals and approach to achieving those goals (Rigby, 2011).

The motivation for development of a mission statement may arise from the objectives that are expected to be accomplished with it (Campbell and Yeung, 1991): motivation of employees to achieve higher performance, direction and consistency in the allocation of resources, a balance between the conflicting interests of different groups of stakeholders. The mission statement can also contribute with its impact outside the enterprise (Rigby, 2011): closer ties and better communication with customers and suppliers, public relations, external support.

Comprehensive mission statement can contribute significantly to high performance, hence, it provides numerous benefits that usually translate into high performance, such as: 1. explanation of the purpose of the organization, 2. identification of standards for allocation of resources, 3. focus and specification of organizational purposes into objectives and goals, 4. identification of core strategic competence and market position, 5. setting priorities, values and business philosophy, etc. However, regardless of the rationality of the process, it is proposed that the basic purpose and motivation for the development of the mission statement should be to enhance the performance of the company (Bart and Tabone, 1998).

1.1. Key Components and Terms of a Mission Statement

Typically, the mission statement is prepared by the owner and/or the senior management of the company. Thus, it is important to know that besides the elements that are positively correlated with the performance of the company (adopted values, social responsibility), there are elements that are found to be negatively correlated with performance, such as the presence of financial statement purposes (Bart and Baetz, 1998). For that reason, the process of development of a mission statement should be approached with high attention and managers should be very careful about the certain components they incorporate into the statement. The way to identify the basic components and terms that should be included in a mission statement is to create a model consisted of the

key components given by Campbell (1996) and the associated terms provided by Stevens (1994) that are positively connected to business performance (Table 3).

Table 1. Mission statement model of key components and terms

Components of the mission statement by the Ashridge Mission Model (Campbell, 1996)	Key terms in the mission statement (Stevens, 1994)
Intention • Why is there a company? • What is the basic reason for existence? • For whose benefit does the company exist?	Consumers/clients/customers Investors/shareholders/owners Community/society Employees/colleagues Management Suppliers
Strategy • How will the company pursue its strategic goals? • The competitive position and key competencies? • Identification of the commercial logic for the business.	Fiscal conservatism Market share Financial measures (sales, profit, return) Domination and competition Long perspective Global perspective Research and development (R&D) Technology
Values • What does the company believe in? • Setting priorities and core beliefs, aspirations, philosophy. • Determining of the moral logic of business.	Awareness of cost (sense of the value of the product/service versus price) Social/civic responsibility Commitment/dedication Welfare of employees/quality of life Learning/training/development
Standards of conduct • How does the company act in the community? • Policies and pattern of behavior that support core competencies and value system	Ethics/morality/honesty/fair treatment Professionalism Aggression/focus on improving Adaptation/reaction Innovation/creation Authorization (transfer of responsibility)

According to this model, the management of the mission statement is a continuous process that requires constant review and change. With its use, the present deficiencies in the existing mission can be perceived, and/or these can be avoided in the formulation of the new mission statement (Campbell, 1996). For example:

- Are the values of the management/owner compatible with the values of employees (The observed differences can contribute to further development of corporate culture. Such differences may easily be perceived through interviews, group discussions and/or questionnaires, after which the management must face the need to change the mission statement or change and recruit employees with values compatible with the values defined in the existing mission statement);

- Are the values in the mission in conflict with the values of the management and/or employees;
- Are the strategy and the values mutually supporting and reinforcing or conflicting, which can be observed through the adopted standards of conduct (If clear standards of conduct can be identified in the mission statement, this indicates that there is a close link between strategy and values).

This model can be used as an analytical framework by which managers can shape, modify or improve the mission statement of the company.

2. Literature Review and Hypotheses

The vision and mission are considered to be of great importance for the efficient and effective operation of the enterprise. Many research papers identify the mission statement as a tool for strategic planning and starting point in building enterprise's identity. It is also associated with business performance and survival (Leuthesser and Kohli, 1997).

According to Medley (1992) and Wilson (1992), the existence of a detailed mission statement can lead to a 50% increase in the effectiveness of the company. Research shows that companies with a detailed, highly comprehensive mission statement have an average return on investment of 26.2%, while companies with low comprehensive mission statement have an average return of 13.7% (Rarick and Vitton, 1995).

Since 1993 until 2010, mission statement is highly popular marketing – management tool, used by a large number of managers, irrespective of the geography and the type of economic system in which the company operates (Rigby and Bilodeau, 2011). Most of the managers also show high satisfaction levels from the effects of mission statements on the business performance (Bain and Company, 2013).

Based on the literature review, it can be assumed that companies involved in the process of formal strategic planning and creation of a comprehensive mission statement are more likely to achieve good financial and business performance. In this paper, the mission statement is defined as highly comprehensive when it includes all of the proposed components of mission statement given by Campbell (1996): key intent, strategy, values and standards of behavior. In the absence of even one of the components, it is considered to be low comprehensive statement.

With regard of the numerous examples that affirm the importance of mission statement, this paper proves that the formal strategic planning process which includes a creation of a comprehensive mission statement is positively related to and largely determines the success of a business performance, i.e. market share, regardless of the size of companies. In addition, the analysis is

aimed at challenging and rejecting the established hypothesis that "Market share of companies doesn't depend on the detailed, highly comprehensive mission statement", given that the first step of formal strategic planning is the preparation of a written mission statement.

3. Research Methodology

The purpose of this paper was to explore and present the importance of mission statement for the competitiveness of companies, through the analysis of the relationship of highly comprehensive mission statement and market share (in a given period of time). The methodology included both quantitative and qualitative methods, based on the goal to obtain complete picture of the degree to which companies in a transitional economy include mission statements in the strategic planning process.

Primary data derived from structured questionnaires about attitudes on market orientation statements measured on a nominal and interval scale, and a follow-up, semi-structured interview (January – February 2012) with the managers of 38% (19) of the registered companies in the confectionery industry in Macedonia. Secondary data derived from books, journals and academic articles. Data was analyzed with IBM SPSS19. The conclusions are given on the base of descriptive and deductive statistics.

Market share as a business performance indicator was measured on a 5-degree subjective scale from 1-5, where 1 is - low, 5 - high. The subjective scale is taken as a measure due to: 1. Managers' avoidance to provide accurate data that reflect their business performance; and 2. High level of convergence between subjective and objective scales for measuring business performance, including this particular scale (Dawes, 1999).

The focus of the analysis is the confectionery industry in Republic of Macedonia for several reasons (Economic Chamber of Macedonia, 2013): it is an important part of the food industry with positive impact on the external trading balance of the country, because the value of exports of finished confectionery products is almost 10 % of the value of total exports of food products; it employs a significant part of the workforce in the state, and is a major consumer of the domestic packaging industry and transportation services. Furthermore, it is a part of the consumer goods market where the activities of enterprises should be characterized by a proactive approach to strategic planning and marketing – management activities. Regardless of these facts, the current market situation shows that Macedonian enterprises show a number of weaknesses in the strategic planning process (Jovanov, 2009).

Based on the literature review about the impact of mission statement on business performance, i.e. profitability, it is of great importance to provide sufficient knowledge on two key aspects: 1. the connection between detailed, highly comprehensive mission statement and business performance, and 2. the

key components and terms that can help in the process of mission statement creation (through the analysis of current practices of Macedonian companies).

3.1. Data Analysis and interpretation

Descriptive analysis provides a representation of companies according to their size and market share. Descriptive statistics shows that the statistical sample consist of nearly equal representation of small (31.6%), medium (36.8%) and large (31.6%) companies (table 2). The inclusion of companies of different sizes in the sample is influenced by the fact that strategic planning should not be conditioned primarily by the size of the company, but the industry and the environment in which it works. Size is defined primarily by number of employees (1-9 micro, 10-49 –small, 50-250 medium, above 250 - large) according to the definition provided by the Macedonian Company Law (2004), article 470.

Table 2. Descriptive statistics of enterprises by size

Size		Frequency	Percentage	Cumulative percentage
Valid	micro	2	10.5	10.5
	small	4	21.1	31.6
	medium	7	36.8	68.4
	large	6	31.6	100.0
	Total	19	100.0	

The research has revealed that 47.4% (cumulative) of the surveyed companies' market share is very low to low, and only 5.3% of the companies have reported very high market share (table 3), which indicates that the domestic companies do not occupy most of the domestic market, and are losing market share to foreign competitors. This can lead to further risk on the financial situation, i.e. profitability, since it is proven that higher market share leads to higher profitability.

Table 3. Descriptive statistics of companies' market share¹

Market share		Percent	Cumulative Percent
Valid	1	21.1	21.1
	2	26.3	47.4
	3	15.8	63.2
	4	31.6	94.7
	5	5.3	100.0
	Total	100.0	

¹ Market share is measured on a subjective scale of 5 degrees (1-5) where: very low - 1, low - 2, neither low nor high - 3, high - 4, very high - 5.

Moreover, companies have on average low size of market share (2.7), with small companies reporting on average lower size of market share (1.5) than medium – sized and large companies. In fact, when analyzed by size (table 4), it can be seen that all of the small companies (31.6% of total) stated that their market share is very low or low (by 15.8%), market share in medium sized companies varies from very low (5.3%) to high (15.8%), while large companies reported mostly high market share (15.8%).

Table 4. Cross – tabulation of companies by size and market share

			Market share					Total
			1	2	3	4	5	
Companies by size	Small	Count	3	3	0	0	0	6
		% of Total	15.8%	15.8%	.0%	.0%	.0%	31.6%
	Medium	Count	1	2	1	3	0	7
		% of Total	5.3%	10.5%	5.3%	15.8%	.0%	36.8%
	Large	Count	0	0	2	3	1	6
		% of Total	.0%	.0%	10.5%	15.8%	5.3%	31.6%
Total		Count	4	5	3	6	1	19
		% of Total	21.1%	26.3%	15.8%	31.6%	5.3%	100.0%

Regarding the level of comprehensiveness of the mission statement, the analysis shows that the majority of companies (57.9 %) have created low comprehensive or poorly defined mission statement, while a smaller part (42.1 %) have created a highly comprehensive mission statement (table 5). To be exact, all of the analyzed small companies said that their mission statement is low comprehensive (includes less than the key four components), more than the half (5 of 7 or 71.4%) of the medium – sized companies also create low comprehensive mission statement, while all of the large companies reported that their mission statement is highly comprehensive (includes all of the key four components).

Table 5. Cross – tabulation of companies by size and level of comprehensiveness of the mission statement

Cross – tabulation			Mission statement		Total
			Low comprehensive	Highly comprehensive	
Companies by size	Small	Count	6	0	6
		% of Total	31.6%	.0%	31.6%
	Medium	Count	5	2	7
		% of Total	26.3%	10.5%	36.8%
	Large	Count	0	6	6
		% of Total	.0%	31.6%	31.6%
Total		Count	11	8	19
		% of Total	57.9%	42.1%	100.0%

The analysis reveals existing differences between the processes of mission statement formulation in large, medium – sized and small companies. In

specific, it is evident that large companies have more formal and detailed approach in contrary to small companies, while medium – sized companies demonstrate similarities both to large and small companies, with larger market share than small companies, but lower level of comprehensiveness in mission statements than large companies. This calls for further examination in order to explore the key factors that contribute to the variances in the processes in companies with different sizes.

3.2. Testing of Hypotheses

The deductive analysis is based on the assumption of a linear dependence of phenomena, according to which it is assumed that the market share of the company is a linear function of the highly comprehensive mission statement. Primary zero hypothesis of the existence of nonlinear dependence between the events ($H_0: p=0$) is set in order to be refuted, and to prove the opposite, i.e. the correlation is not zero ($H_1: p \neq 0$). Several measurements were performed using correlation and linear regression analysis, in order to examine the isolated impact of comprehensive mission statement on market share.

The reliability of internal consistence of the scale is confirmed by the high level of the coefficient Cronbach Alpha $\alpha = 0.870$ for the variables that define the level of mission statement comprehensiveness (Tab.6). This enables researches to repeat the testing in future studies (Geoge & Mallery, 2003; Giliem & Giliem, 2003).

Table 6. Testing the scale reliability

Reliability/Variables in the questionnaire explaining the marketing planning process		Reliability/Variables in the questionnaire explaining the level of mission statement comprehensiveness	
Cronbach's Alpha	N of variables	Cronbach's Alpha	N of Items
.902	52	.870	2

Prior regression analysis, it was important that some of the underling conditions for linear regression are met: 1. linear relationship between the dependent variable and the independent one (confirmed by significant correlation association of phenomena and F-test), 2. there is no multicollinearity between independent variables ($VIF < 5$).

Furthermore, Pearson correlation analysis shows that at the 0.01 level and Sig. 0.00 (1-tailed), there is significant direct correlation (0.777) between highly comprehensive mission statement (analyzed by the use of the value of mean) and market share (table 7).

Table 7. Correlation analysis between highly comprehensive mission statement and market share

Correlation analysis		Mission statement
Market share	Pearson Correlation	.777**
	Sig. (1-tailed)	.000
	N	19
**. Correlation is significant at the 0.01 level (1-tailed).		
*. Correlation is significant at the 0.05 level (1-tailed).		

Following the proven connection of the phenomena, the dependence between market share (dependent variable) and highly comprehensive mission statement (independent variable) was also tested. Thereby, with a unilateral test, the simple linear regression analysis with Significance level of p (Sig.) = $\alpha=0.000$; coefficient of determination $R^2 = 0.603$; t- test statistics $t = 5.082$; degrees of freedom $df = 17$ ($df = n-2$); critical value of the test $t_{df;\alpha} = 2.567$ or 2.898 , confirms the linear dependence of market share of highly comprehensive mission statement (table 8), according to the decision-making rule: $t > t_{df;\alpha}$ (Newbold et al, 2007).

Table 8. Dependence between highly comprehensive (broadly defined) mission statement and market share

Model Summary									
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.777 ^a	.603	.580	.833	.603	25.823	1	17	.000
a. Predictors: (Constant), Highly comprehensive mission statement									
Coefficients ^a									
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B		
		B	Std. Error	Beta			Lower Bound	Upper Bound	
1	(Constant)	-.057	.582		-.098	.923	-1.285	1.171	

	Highly comprehen sive mission statement	1.966	.387	.777	5.082	.000	1.150	2.782
a. Dependent Variable: Market share								

* For $p(\text{Sig.})=\alpha=0.01$ the critical value of the F-test is $F_{1; 17}=8.40$

* For $p(\text{Sig.})=\alpha=0.005$ the critical value of the t-test is $F_{1; 17}=4.45$

Additionally, using the F-test with a value of $F = 25.823$; degrees of freedom $df_1 = 1$ and $df_2 = 17$ and the critical value of the test $F_{1; 17} = 8.40$ or 4.45 , H_0 is rejected by the rule-making: $F > F_{1; 17}$ and the alternative hypothesis is accepted (companies market share depends on highly comprehensive mission statement), i.e. the relation between the phenomena is statistically significant (Newbold et al, 2007).

Testing shows that in the case of the confectionery industry, which produces consumer goods, highly comprehensive mission statement in its formal, written shape, directly affects the increase in market share of companies.

The positive relation of the level of mission statement's comprehensiveness and market share expresses the importance of the higher level of mission statement's comprehensiveness for better performance and competitiveness of companies, hence higher market share also implies higher profits, with the possibility to reinvest for further growth and development.

4. Conclusion

Results suggest that highly comprehensive mission statement has significant correlation with market share, i.e. business performance. Additionally, the linear regression analysis indicates that broadly defined mission statement directly influences companies' market share. The analysis has also shown that companies can identify and use a model that includes the key components and terms of a mission statement, in order to be able to create highly comprehensive mission statement. Furthermore, it can be stated that companies that operate on transition economies market, such as Macedonia, do not attend this question with high importance, and have mostly low defined mission statements, with one to two components that explain the business, which can lead to other risks in the strategic planning process, such as under defined business objectives and goals, weak corporate image, etc.

This paper provides a proof that the process of mission statement construction enables the management to: analyze the existing mission statement, the need of probable revision, as well as to construct a new mission statement, if necessary. It is found that the identified components, terms, causes and guidelines

for creation and implementation of mission statement in the process of strategic planning, are useful for the business, i.e. are related to achievement of better business performance.

4.1. Implications for Theory and Practice

This paper, by proving the dependence of business performance on the highly comprehensive mission statement, contributes to the theory which states that, in order to be effective and reach positive business results, the process of formal strategic planning should start with a corporate mission statement.

Additionally, the synthesis of the theory which suggests that the creation of highly comprehensive mission statement delivers a focus to the strategic planning process by providing insight into whether it covers all the key components and terms by which a company can explain the purpose of the organization, focus on organizational objectives and goals, etc. is especially important to reduce the resistance of companies to the formal process of strategic planning.

In general, the findings are useful to entrepreneurs and managers, since they provide a more accurate perspective of the significance of mission statement and the way that it affects business.

4.2. Limitations and Areas for Future Research

The limitation in the analysis arises from the use of a subjective scale to measure market share in a particular moment of time, which prevents monitoring the connectivity and reliability over a longer period of time. This would be possible by using an objective scale or absolute/ relative data on business performance over a certain period. It is also recommended to repeat the test on a larger sample of different industrial activities, in order to perform general conclusions at the national level, not only at the level of a specific industry.

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